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C O N F I D E N T I A L STATE 283963

TOSEC 109

FOLLOWING SENT ACTION SECSTATE, INFO BEIRUT, BONN, EC BRUSSELS, JIDDA, KUWAIT, LONDON, PARIS, OECD PARIS, ROME, DEC 30, FROM TEHRAN RPTD TO YOU:

QUOTE C O N F I D E N T I A L TEHRAN 10963

E.O. 11652: GDS
TAGS: EFIN, ENRG, EALR, IR
SUBJ: THE PRICE OF GOLD AND THE PRICE OF OIL

REF: A) STATE 280694 B) TEHRAN 10780 C) TEHRAN A-170

1. SUMMARY: IRAN HAS BEEN FOLLOWING POLICIES OVER THE PAST YEAR BOTH TO MAINTAIN DOMESTIC ECONOMIC STABILITY AND TO REVENT DISRUPTING CAPITAL INFLOWS. THE CURRENT SERIOUS CONCERN OVER THE FUTURE STATUS OF GOLD ILLUSTRATES THE GOI'S STRONG DESIRE THAT A WORLD FINANCIAL CRISIS BE AVOIDED WHICH MIGHT PLACE IN JEOPARDY THE COUNTRY'S AMBITIOUS DEVELOPMENT PLANS. THE DEPTH OF THE IRANIAN CONCERN AND THE IMPORTANCE OF THE U.S. IN INCLUENCING THE FUTURE STATUS OF GOILD AND THE DIRECTION OF INTERNATIONAL MONETARY DEVELOPMENTS SUGGEST THE POSSIBILITY THAT THE USG MAY HAVE USEFUL LEVERAGE OVER THE GOI IN THE EVOLVING CONSUMER/PRODUCER DIALOGUE OVER THE PRICE OF OIL. END SUMMARY.
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2. EMBASSY BELIEVES CURRENT IRANIAN CONCERN OVER PROPOSED CHANGES IN THE PRICE OF GOLD AND MAINTENANCE OF STABILITY IN THE INTERNATIONAL MONETARY SYSTEM ADDS A NEW AND EXTREMELY INPORTANT ELEMENT TO THE OIL PRICE SITUATION WHICH ALSO MUST BE SERIOUSLY CONSIDERED. SEMI-OFFICIAL KAYHAN INTERNATIONAL IN ITS DECEMBER 25 LEAD STORY REPRINTED IRANIAN VERSION OF THE SHAH'S INTERVIEW WITH AP REPORTER MULLIGAN, HIGHLIGHTING "CLARIFICATION" OF HIS REMARKS ON THE PRICE OF GOLD (REF B). AS THE EMBASSY PREVIOUSLY HAS REPORTED, IRANIANS ARE ASTUTE ENOUGH TO UNDERSTAND THAT A SERIOUS FINANCIAL CRISIS IN THE INDUSTRIAL NATIONS, ON WHICH THEY WILL HAVE TO RELY FOR MANY YEARS IN THE FUTURE FOR A SUBSTANTIAL PART OF THE NECESSARY INPUTS TO BRING ABOUT THEIR AMBITIOUS ECONOMIC DEVELOPMENT PLANS, WILL WORK TO THE BENEFIT OF NO ONE.

3. THE GOI'S CONCERN OVER MAINTAING BOTH DOMESTIC AND ITNERNATIONAL ECONOMIC STABILITY IN ORDER TO PROTECT THE HUGE ECONOMIC GAINS IRAN HAS MADE SINCE OIL PRICES WERE INCREASED HAS BEE OBVIOUSL OVER THE PAST YEAR. WHILE THIS CONCERN CLEARLY HAS NOT BEEN DEEP ENOUGH TO BRING ABOUT ANY SERIOUS THOUGHT OF REDUCING THE PETROLEUM PRICE OUTSIDE THE OPEC FRAMEWORK, ON THE DOMESTIC SIDE MORE THAN LIP SERVICE HAS BEEN PIAD TO PRESERVING AS MUCH ECONOMIC EQUILIBRIUM AS POSSIBLE. IMPORT REGULATIONS HAVE BEEN SUBSTANTIALLY LIBERALIZED AS AN ANTI-INFLATIONARY MEASURE. THE RATE OF GROWTH IN THE MONEY SUPPLY HAS BEEN KEPT AT SOMEWHAT LESS THAN 30 PERCENT DURING 1974, WHILE CONSTANT PRICE GNP GREW AT ABOUT 40 PER CENT. WAGES IN THE ORGANIZED SECTOR HAVE INCREASED SOMEWHAT FASTER THAN THE ESTIMATED 20-25 PERCENT RATE OF INFLATION. ENCOURAGED BY A DROP IN THE RATE OF PRICE INCREASES DURING OCTOBER, GOI OFFICIALS NOW ARE SAYING THE CONSUMER PRICE INDEX INCREASE HAS SLOWED TO AN ANNUAL RATE OF ABOUT 15 PERCENT AND ARE OUTWARDLY OPTIMISTIC THAT IT CAN BE SLOWED TO A 10 PERCENT RATE OF INCREASE DURING 1975.

4. IRANIAN INTEREST RATES HAVE REMAINED HIGH, AN IN RECENT WEEKS HAVE BEEN ENOUGH ABOVE EURO-DOLLAR RATES TO CAUSE OFFICIAL CONCERN OVER AN INFLOW OF HOT MONEY. INVESTMENT IN IRAN IS ATTRACTIVE BOTH FOR A HIGHER RATE OF RETURN AND BECAUSE OF CONTINUING SPECULATION OF A REVALUATION OF THE RIAL. TWO CENTRAL BANK OF IRAN CIRCULARS WERE ISSUED THIS MONTH TO DISCOURAGE CONFIDENTIAL

CAPITAL INFLOWS. ONE COMPELS COMMERCIAL BANKS TO DEPOSIT IN RIALS AT THE CENTRAL BANK 15 PERCENT OF THE VALUE OF FOREIGN ECCHANGE DEPOSITS. THE OTHER CIRCULAR WAS ISSUED ON A CONFIDENTIAL BASIS TOCOMMERICAL BANKS FORBIDDING PRIVATE BORROWING ABROAD THROUGH THE BANKING SYSTEM. MOREOVER, THE CENTRAL BANK IS REFUSING TO PROVIDE ASSURANCE OF CONVERTIBILITY TO FOREIGNERS MAKING TIME DEPOSITS IN IRANIAN RIALS. CENTRAL BANK AND MINISTRY OF ECONOMICS AND FINANCE OFFICIALS READILY ADMIT THAT THESE

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MEASURES ARE STEPS BACKWARDS FROM THE MOVES MADE EARLIER THIS YEAR TOWARDS FREE CONVERTIBILITY, BUT THEY SAY MOVING TO COMPLETELY CONVERTIBLE STATUS UNDER ARTICLE VIII OF THE IMF WILL HAVE TO WAIT UNTIL THE INTERNATIONAL MONETARY SITUATION STABILIZES.

5. THE SHAH'S RECENT COMMENTS NOTWITHSTANDING, IT PROBABLY WOULD BE WRONG TO IMP
Y THAT THE IRANIANS ARE APPROACHING A STATE OF PANIC OVER CURRENT MOVEMENTS TOWARDS VALUING GOLD RESERVES AT THEIR FREE MARKET RATE. AS LONG AS THIS CHANGE IS CARRIED OUT GRADUALLY AND CAUTIOUSLY, THE DETHRONEMENT OF THE "BARBAROUS RELIC" SEEMS TO BE WELCOMED BY IRAN'S INTERNATIONAL ECONOMIC POLICY MAKERS. IRAN HOLDS ONLY ABOUT $163 MILLION OF ITS OWN RESERVES IN GOLD, LESS THAN 3 PERCENT OF THE NET TOTAL (REF C). ACCORDING TO HIGH OFFICIALS OF BOTH THE CENTRAL BANK AND THE MINISTRY OF ECONOMICS AND FINANCE, THE GOI HAS NO PLANS TO PURCHASE MORE GOLD. IRAN WANTS TO ACCELERATE ITS ECONOMIC DEVELOPMENT AS RAPIDLY AS POSSIBLE AND HAS NO DESIRE TO TIE UP SIGNIFICANT PROPORTIONS OF ITS ASSETS IN A NON-LIQUID NON-INTEREST EARNING FORM. THE GOI'S LONG RANGE POSITION ON THE ROLE OF GOLD SEEMS VERY SIMILAR TO THAT OF THE USG.

6. ON THE OTHER HAND, GOI OFFICIALS ARE AWARE THAT THERE ARE STRONG FORCES ADVOCATING AN IMMEDIATE AND WIDESPREAD CHANGE IN THE PRICE OF GOLD FROM THE OFFICIAL $42 PER OUNCE TO THE FREE MARKET PRICE. THEY FEAR THAT THIS TRANSITION WILL NOT BE HANDLED WITHOUT AN ABRUPT, EXCESSIVE, AND INFLATIONARY INCREASE IN INTERNATIONAL LIQUIDITY. THEY THINK THE FRENCH AND ITALIANS ARE MOVING MUSH TOO FAST TO REAISE THE VALUE OF THEIR GOLD RESERVES. THEY CURRENTLY ARE BLAMING THE ITALIANS FOR RECENT SPECULATION WHICH HAS DRIVEN UP THE FREE MARKET GOLD PRICE. THEY SPEAK APPROVINGLY OF THE RECENT CAUTIOUS PRONOUNCEMENTS MADE BY FEDERAL RESERVE CHAIRMAN ARTHUR BURNS ON THE COMING U.S. GOLD SALE.

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7. FROM THE VIEWPOINT OF EMBASSY TEHRAN, THE CURRENT IRANIAN CONCERN OVER GOLD PRICE DEVELOPMENTS AND MAINTAINING STABILITY IN THE INTERNATIONAL FINANCIAL SYSTEM IS SERIOUS ENOUGH TO REINFORCE THE NEED FOR AN EARLY CONSUMER-PRODUCER CONFERENCE. THE GOI LIKELY WILL STICK TO ITS POSITION OF TIEING THE PRICE OF OIL TO THAT OF A BASKET OF OTHER COMMODITIES IMPORTANT IN WORLD TRADE, BUT CONCERN OVER THE FUTURE PRICE OF GOLD AND ITS RELATION TO THE EVOLVING INTERNATIONAL MONETARY SYSTEM ADDS AN ELEMENT POTENTIALLY MORE IMPORTANT TO THE IRANIANS THAN PRICES OF OTHER COMMODITIES. THE GOI VIEWS THE U.S., WITH ABOUT 27 PERCENT OF WORLD GOLD RESERVES OR MORE THAN TWICE AS MUCH AS ANY OTHER COUNTRY, AS MUCH MORE IMPORTANT THAN ANY OTHER NATION IN DETERMINING THE FUTURE STATUS OF GOLD.

8. THE EMBASSY REALIZES THAT U.S. POLICY ON THE FUTURE STATUS

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OF GOLD PROBABLY IS BEING DETERMINED INDEPENDENTLY OF THE PROBLEM
OF OIL PRICES. HOWEVER, THE SHARPNESS OF THE IRANIAN REACTION
TO THE MARTINIQUE COMMUNIQUE (REF B) AND THE GOI'S SENSITIVITY
TOWARDS ANY FACTOR WHICH MAY ERODE THE PURCHASING POWER OF ITS
PETRODOLLARS SUGGEST THAT THE IRANIANS MAKE A CLEAR CONNECTION
BETWEEN GOLD AND OIL PRICE POLICY. U.S. ASSURANCES OF A CAUTIOUS
AND GRADUAL DEMONETIZATION OF GOLD IN A MANNER NOT TO AGGRAVATE
WORLD INFLATION COULD WELL PROVIDE USEFUL LEVERAGE IN THE
COMING CONSUMER/PRODUCER DIALOGUE. IN ANY CASE, BECAUSE OF
THEIR MUCH STRONGER FINANCIAL SITUATION, IRAN AND THE OTHER IM-
PORTANT OIL-PRODUCING COUNTRIES WILL HAVE TO BE GIVEN MORE OF
A ROLE IN FUTURE INTERNATIONAL MONETARY NEGOTIATIONS. THE CONSUMER/
PRODUCER DIALOGUE SEEMS THE LOGICAL PLACE TO INJECT THE ROLE
OF GOLD INTO THE OVERALL EQUATION. MIKLOS UNQUOTE. SISCO

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